

PTIF News

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Welcome

Special points of interest:

- The PTIF has strong liquidity
- Economic conditions are driving bond prices down
- GASB Fair Value Factor reflects current market impacts

2008 will always be a memorable year. More memorable than the experience of campaigning will be the financial turmoil experienced in the U.S. economy and the rest of the world. We are living through an historic event.

Everyone is beginning to see and feel the impacts of the recession as unemployment rates rise and home prices fall. We've seen wild swings in the prices of crude oil and other commodity as they have peaked and plunged within the same year. Most notable is that our

retirement savings have lost value.

Everyday we read headlines naming companies most people never expected to face financial distress: Bear Stearns, Lehman Brothers, AIG and General Motors to name a few. Large banks and mortgage companies have been taken over by other banks hoping to mediate the impact on the economy. The question asked by all is when will it end?

We've put together this newsletter to help you understand what it

means to your investment in the Public Treasurers Investment Fund (PTIF). We hope this clarifies any questions or concerns you may have.

We appreciate your support and confidence by letting us manage your investments. As always, feel free to contact the office with any questions or concerns you may have.



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Market Update: What's Happening

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For nearly 18 months, the credit markets have been in disarray. What started as a "sub-prime debacle" which was considered "contained" in August 2007, has now spread across the globe.

Access to capital in the form of commercial paper or other short-term debt instruments to fund daily business operations has dried up. Liquidity is king

now as investors hold on to cash unsure of the credit worthiness of companies and needing to fund expenditures such as payroll and other obligations.

Traditionally, the PTIF has purchased newly issued one and two year notes in block sizes of \$50 million or more. Today, those corporations able to sale new bonds are issu-

ing 10 to 30 years bonds—longer than allowed by the Money Management Act.

Broker/dealers are no longer willing to risk their capital by maintaining an inventory of secondary market securities for resale. Before the crisis, dealers would send a list of securities they had available for resell to (continued on page 3)

PTIF Portfolio Review

The PTIF was established to provide a safe, liquid, competitive investment alternative for local government entities. It has been able to pay a competitive yield by purchasing securities up to two years in maturity and using high grade corporate debt.

Over the past few months, we have worked hard to increase our daily liquidity. We now carry more than \$1.0 billion of overnight liquidity to insure we have adequate cash to meet the demands of PTIF participants. In October, when the markets were completely frozen, we discussed the need to possibly restrict withdrawals from the pool. That is no longer a concern. However, advance notice for large withdrawals is always appreciated.

The portfolio is not actively traded to try and take positions that might enhance yield. Investments are purchased with the intent to hold them until they mature.

A second objective is to match current market interest rates. This has been accomplished by purchasing variable rate medium term notes. These notes trade at a spread to an index such as LIBOR or Fed Funds.

In other words, the index is the base rate and the issuer pays an additional percentage in excess of the base rate. This is known as the spread. The spread remains constant but the index changes to reflect differences in interest rate levels. The rate is readjusted on a set schedule such as quarterly or monthly.

If only fixed rate securities were purchased, the interest rate paid would significantly lag the change in prevailing market interest rates. To minimize this lag, variable rate securities are used which reset periodically to reflect changes in interest rates.

For the past 18 months, we have experienced unprecedented disruptions in the credit markets, sometimes even a total freeze in market activity. The results have been two-fold: 1) the markets are very illiquid; and 2) the spreads on variable rate securities have widened. The lack of liquidity is discussed in the "Market Update" portion of this newsletter.

Credit spreads have created other challenges. As an example of what we have seen lately, let's look at

Toyota Motor Corporation. Historically, we would purchase a new issue of Toyota at the LIBOR index plus two or three basis points. In the past few months, we have had opportunities to purchase the same security at LIBOR plus 150 basis points, or nearly one and one half percent higher than it traditionally trades.

Portfolio Liquidity

Overnight	\$1,519,000,000
7 Days	1,649,000,000
14 Days	1,778,500,000
30 Days	1,966,875,000
60 Days	2,905,340,000

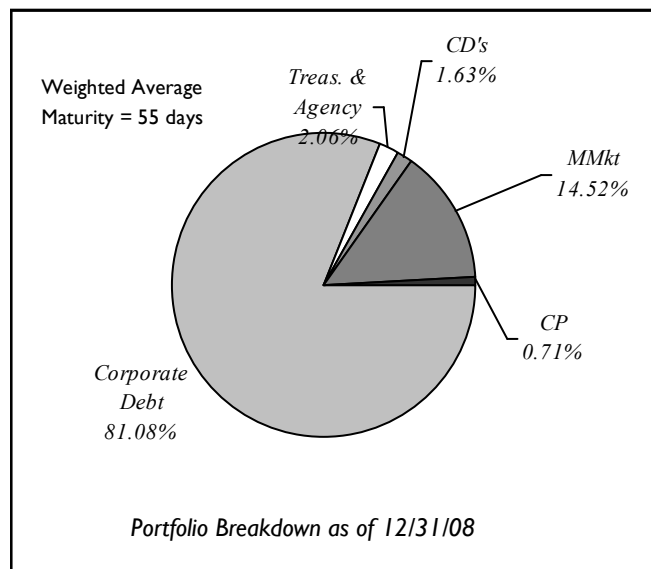
As of January 27, 2009

These wide spreads are the result of the lack of liquidity as sellers are forced to unload investments to meet liquidity needs, and investors demanding greater returns because of market uncertainties. Similar activity is seen with names like General Electric, IBM, Hewlett Packard and Walmart.

The downside to wide spreads is that the price of securities adjust as if interest rates had gone up. That is to say that the price drops as spreads widen. Securities purchased when spreads were much tighter are now priced as if interest rates have gone up, even though Fed Funds and LIBOR are at historically low levels.

The credit quality of the portfolio is stronger than ever. ***We are not experiencing losses from having to liquidate securities in an illiquid market.***

Some participants have raised questions about how a loss is handled by the PTIF. By policy, realized losses and gains are included in the monthly rate that is paid by the PTIF. Extraordinarily large realized gains or losses, if any, are amortized over several months to smooth the PTIF's rate. Unrealized gains or losses resulting from the GASB Fair Value Factor are not included in returns or passed on to participants.



GASB Implications and Factor

The Governmental Accounting Standards Board (GASB) Statement No. 31 Accounting and Financial Reporting for Certain Investments and for External Investment Pools establishes accounting and financial reporting standards for all investments. The PTIF is considered an “external investment pool” for those entities that participate.

Each June 30 and December 31, the PTIF values its investments. As interest rate levels change over time, the value of securities held in the portfolio change also. The purpose of GASB Statement No. 31 is to reflect this change in value.

Fair value is defined as a financial instrument exchanged between

two willing parties, other than a forced or liquidation sale. GASB 31 assumes market quotes will be available. However, in today’s illiquid markets reliable market quotes are not available.

“The key thing for participants to remember is that any change in fair value does not reflect a realized loss and is not passed on to participants.”

To determine fair value, we have used numerous sources including our custodian bank, Bloomberg quotes, responses from dealers and reasonable judgment considering existing market conditions.

The PTIF does not pay participants for gains or deduct losses in fair market value resulting from changes in interest rates. However, GASB 31 does require the investing entity to reflect these unrealized gains or losses in its financial state-

ments. The result is a change in the value of the assets held on the balance sheet because of unrealized gains or losses. Overtime, these unrealized gains or losses should offset one another.

The key thing for participants to remember is that any change in fair value does not reflect a realized loss and is not passed on to participants. The PTIF continues to payout \$1.00 for every dollar invested.

GASB Fair Value Factor

December 31, 2008	.990980
June 30, 2008	.996952
December 31, 2007	.995095
June 30, 2007	.999798
December 31, 2006	1.000007
June 30, 2006	.999680

Market Update (continued)

investors. Our Investment Officer would review lists from several dealers on a daily basis and purchase the best securities offered. In today’s market, dealers no longer send a list of securities offered. Instead, they try to match up sellers and buyers without carrying any inventory.

In other words, the markets are still very illiquid. Only highly rated bonds are trading, and even then at prices that do not reflect normal conditions. Sellers, desperate for liquidity, are forced to sell securities at losses to meet their liquidity requirements. These prices do not necessarily reflect normal market values.

As a result of these illiquid markets, the PTIF is purchasing select securities in the secondary market.

However, the block sizes are in the \$5 to \$20 million range rather than the \$50 million and up size that is normally purchased.

As credit concerns have increased, the spreads on variable rate notes have increased. The spread is the additional basis points added to an index such as the LIBOR or Fed Funds. Wider spreads have the same effect as an increase in interest rates—higher rates lead to lower prices. Wider spreads also lead to lower prices even though we have seen interest rates go lower and would expect prices to increase.

“Sellers, desperate for liquidity, are forced to sell securities at losses to meet their liquidity requirements.”

In this environment, it is difficult to sell securities to meet liquidity requirements without taking losses. Even a bond that matures within the next week for a company such as General Electric could not be sold at full price. It would be sold at a slight loss.

The PTIF does not have any liquidity concerns. For GASB 31 purposes, some securities reflect a loss compared to book value. We continue to focus on purchasing the highest qual-

ity securities available at attractive prices as sellers are scrambling to meet their liquidity requirements.

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What's the latest with the PTIF?

- ***Are there any restrictions on withdrawals from the PTIF?***

No. In October 2008, the credit markets literally froze and we were concerned about maintaining adequate liquidity in the PTIF to meet the needs of all participants. While the markets are still illiquid, we have amassed over \$1.0 billion of overnight liquidity to insure we can meet your requirements.

- ***Can I get my statements electronically rather than having them mailed?***

With the new IPAS system we are able to flag your account so that you do not receive a mailed copy of your monthly statement. Instead, you are able to print your own statement around the 3rd or 4th business day of the month. We encourage partici-

pants to use this option to help us reduce printing and mailing costs in the face of budget cuts. You can easily do this by completing the setup form found at treasurer.utah.gov/investmentfund.html. Be sure to check the box opting out of receiving paper statements.

- ***How do I get setup to use the IPAS internet system?***

Most existing users have been migrated to the new IPAS system. If your old login does not work, or you would like to get setup, call our office at (801) 538-1042, or toll free at 1-800-395-7665 and ask for Allen Rollo or Jason Nielsen. They can quickly get you setup so you can make deposits, withdrawals, and view and print statements yourself over the inter-

net.

- ***Can I get tax distributions from the state or county sent directly to my PTIF account?***

Rather than have tax distributions sent electronically to your bank account, or waiting for a warrant to arrive, we can have the funds directly deposited into your PTIF account. The new IPAS system will allow you to see these deposits as they are processed. This will allow you to keep your funds fully invested at all times. This eliminates having to send the funds to the PTIF to be invested and they can easily be sent to your bank account when needed. This simple change will help you maximize your investment earnings. Call now to make the change!